

NEWSLINE

Savings Plus Program

1st Quarter 2005

Understand Your Investments—Self-Directed Accounts

This is the eighth and final article in our series on the Savings Plus investment categories. In this issue we focus on our self-directed account option: the Personal Choice Retirement Account, offered through Charles Schwab & Company, Inc.®

If you're an experienced investor who wants to direct your own Savings Plus investments, you may want to consider our "self-directed brokerage option." Provided by Charles Schwab & Company, Inc., the account is called the Schwab Personal Choice Retirement Account (PCRA).

With a PCRA, you can select from over 3,200 mutual funds, including Schwab's *Mutual Funds OneSource* that includes more than 1,800 funds with no loads or transaction fees. Additionally, a PCRA allows you to invest in most individual stocks,

individual governmental or corporate bonds, Real Estate Investment Trusts, and a variety of other investments.

The PCRA is available as part of your 401(k) and/or 457 plan, not as a replacement for those plans, and you must maintain a minimum balance in your core account. For example, if you're enrolled in our 401(k) plan, you must retain \$2,500 or 50 percent of your total 401(k) account balance, whichever is less, in SPP's "core funds." (Core funds are the investment choices offered in SPP's investment lineup, described in the *Savings Plus Investment Guide* and updated on our Web site.)

Even if you sign up for the PCRA as an investment option, it's still wise to follow an asset allocation strategy when choosing where to invest your money. That means continuing to diversify your investments among



different asset classes – cash/stable value funds, bond funds, and stock funds – with the allocation based on your degree of risk tolerance and timeline to retirement.

The PCRA enrollment kit contains more information. To get a copy, call us at (866) 566-4777 (press * 0 to reach customer service), or access the materials online at www.sppforu.com (select Plan Info & Forms, then Forms and Publications, and scroll down to the bottom).

Inside this issue:

Understand Your Investments	1
DPA Awards Contract to Nationwide	1
Upcoming Changes in SPP.....	2
VALIC Fund Closed	3
Upcoming Fund Changes	3
Investment Fund Update	3
Raise Your Contributions & Pay Lower Taxes	4
May is Retirement Planning Month	4
Sign up for "SPP Updates"	4

DPA Awards Contract to Nationwide

The Department of Personnel Administration has selected Nationwide Retirement Solutions to be the third-party administrator for the Savings Plus Program from January 1, 2006, through December 31, 2010. Nationwide, SPP's current third-party administrator, will continue to be responsible for all of our record-keeping and trustee/custodial functions, as well as many operational functions. DPA announced the five-year contract award on March 1, ending a six-month competitive bid process.

Upcoming Changes in SPP

*Where you see RFP listed in the right column, it means we'll seek new fund choices to represent that category, or select a bidder from our current lineup who already represents that category.

Style Box Category	Current Fund	Fund Choices as of August 2005
Fixed Income	Savings Pool	Savings Pool
	American General/VALIC Hartford Money Market Dwight Asset Management	Dwight Asset Management
Bond	Vanguard GNMA Hartford Mortgage Securities HLS Hartford Bond HLS Vanguard Total Bond Market Index (Inst.)	Vanguard Total Bond Market Index (Inst.)
Balanced	Hartford Advisers HLS Janus Balanced	Gartmore Investor Destinations Series - Moderate
Asset Allocation	Gartmore Investor Destination Series	Gartmore Investor Destination Series
Socially Responsible	Domini Social Equity	RFP 2005*
Large-Cap (Value)	Federated Stock Trust American Century Income & Growth	RFP 2005*
Large-Cap (Blend)	Hartford Index HLS CalPERS S&P 500 Index	CalPERS S&P 500 Index
	Hartford Stock HLS MFS Capital Opportunities Hartford Capital Appreciation	RFP 2005* Actively Managed Fund
Large-Cap (Growth)	American Funds Growth Fund of America Janus Twenty MFS Mass Investors Growth Stock Vanguard US Growth	American Funds Growth Fund of America
Mid-Cap (Value)	T. Rowe Price Mid-Cap Value	T. Rowe Price Mid-Cap Value
Mid-Cap (Blend)	Accessor Small to Mid-Cap	RFP 2005*
Mid-Cap (Growth)	Franklin Small to Mid-Cap Growth T. Rowe Price Mid-Cap Growth	T. Rowe Price Mid-Cap Growth
Small-Cap (Value)	Franklin Balance Sheet Investment	RFP 2005*
Small-Cap (Blend)	JP Morgan Investment Management - Undiscovered Managers Behavioral Value Fund (Inst.)	JP Morgan Investment Management - Undiscovered Managers Behavioral Value Fund (Inst.)
Small-Cap (Growth)	Hartford Small Company HLS	Hartford Small Company HLS
International	Janus Advisers International Glenmede Ins. International/PIA	Glenmede Ins. International/PIA

VALIC Fund Closed

Savings Plus participants who hold assets in the fixed annuity offered by VALIC have been notified of the closure of this fund as of Jan. 21, 2005. As of that date, you may no longer defer, exchange, or transfer money into this fund.

On Aug. 24, 2005, any funds our participants still have invested in the VALIC fund will be automatically moved to the Dwight Asset Management fund. The Dwight fund, like the VALIC Fixed Interest fund, is a stable value investment. However, unlike the VALIC fund, the Dwight fund does *not* include a "market value adjustment."

As reported in our last *NewsLine*, a market value adjustment could mean either an increase or reduction in the value of your VALIC investment. However, under current, rising interest rate conditions, a transfer at this time would result in an adjustment that lowers the value of your investment.

To avoid triggering the market value adjustment, you may move your VALIC investment to any bond or stock fund. After 90 days in the new bond or stock fund, you may then move your assets back into the Dwight fund or the Savings Pool. See the SPP *Investment Guide* for a description of the Dwight fund, Savings Pool, and all the investment choices offered by SPP.

You can access the *Investment Guide* at our Web site (www.sppforu.com) or call our toll-free automated Voice Response System (866-566-4777) to ask for the guide to be mailed to you. You also can use this phone number to reach a customer service representative (press * 0).

Upcoming Fund Changes

As reported in the past two *NewsLines*, Savings Plus is planning some changes in the investment choices we offer you, effective the end of August. As the chart on page 2 shows, our new lineup will feature one fund choice in each of the "style box" categories. (The exception is the Large-Cap/Blend category, where we'll offer two choices.)

"Style boxes" are a way to group stock funds based on the size of the companies they invest in and their investment style. Knowing about style boxes helps you tailor your investments to suit your asset allocation strategy.

In some cases, the changes will result in a fund provider being dropped from the lineup. Take a moment to review the chart to see if the fund providers for any of your investments are included in the new lineup. If your fund provider is being dropped, you can opt to transfer your funds to another provider before the change takes effect. Or you can let SPP transfer the funds for you to the new provider for that category.

In deciding which funds to include in our lineup, we look for historical rates of return that are above the benchmark for that category, fees that are low compared to the industry average, and funds that accurately represent their asset class.

In the next *NewsLine*, we'll report the results of our competitive bid process for the five style box categories marked on the chart as "RFP 2005." We'll also announce the winning bidders on DPA's Web site in July (at www.dpa.ca.gov).

Investment Fund Update

FUND INVESTIGATIONS

No items to report.

FUND MANAGER CHANGE

No items to report.

WATCH LIST

WATCH LIST	CRITERIA
Janus Balanced Fund	1 & 3
Janus Adviser International Growth Fund	3
Janus Twenty Fund	3
Hartford Advisers HLS Fund	1
Hartford Stock HLS Fund	1
MFS Capital Opportunities	1
MFS Investors Growth Fund	4
Vanguard US Growth Fund	1

WATCH LIST CRITERIA:

- 1 Did not meet the established performance standards (benchmark/peer universe) over preceding 3/5-year period
- 2 Investment manager changed or such change appears imminent; this change may have detrimental effect on fund
- 3 Significant change in ownership or control of the fund provider
- 4 Material change occurred in investment focus/strategy, capitalization, or investment style
- 5 Substantial portfolio turnover within the fund
- 6 Violation of a Security and Exchange Commission rule or regulation
- 7 Fund experienced difficulty transacting trades, fund transfers, or pricing
- 8 Fund experienced problems in procedures or operations, which may detract from Savings Plus objectives
- 9 Violation of contract terms

Raise Your Contributions & Pay Lower Taxes

The April 15 tax-filing deadline has just passed and you may be wondering how to keep more of your money instead of paying more taxes than you need to. One excellent way to save taxes is to raise your deferral to Savings Plus.



All income you put into your SPP account is non-taxable until you withdraw it. By the time you begin to withdraw your funds, normally during retirement, you'll probably be in a lower tax bracket. So putting this money away for retirement also saves you money on taxes today.

For the current tax year (2005), the maximum deferral limit is \$14,000 per plan (401k/457), for a grand total of \$28,000 if you have both plans. If you are 50 or older, you may contribute an additional \$4,000 per plan (\$18,000 maximum for each plan.) So, for example, if your annual salary is \$50,000 and you defer \$14,000 into your SPP account, you'll only be taxed on \$36,000 of your income.

To see how your deferrals affect take-home pay, use the payroll calculator at the State Controllers Web site. You'll find this link on the SPP Web site, www.sppforu.com. (Click on Planning Tools and scroll down to Paycheck Impact Calculator and select the hyperlink to the SCO's Paycheck Calculator.)

It's your responsibility to ensure you don't "over-defer," which means exceeding the annual contribution limit. Over-deferring can have adverse tax consequences. To find out more about contribution limits, refer to the 3rd Quarter 2004 *NewsLine* or the *Getting Started in Savings Plus* handbook.

May is Retirement Planning Month

To mark Retirement Planning Month (May), CalPERS will host 12 open houses throughout the state during the first week of May. This year's theme is "Creating Your Own Retirement Strategy."

Savings Plus staff will be available at most of these open houses to discuss retirement planning and answer your questions about Savings Plus. For a list of the locations we'll be at, check the SPP Web site (www.sppforu.com).

For more information on Retirement Planning Month, including dates, times, and locations for the open houses, read the Spring edition of CalPERS' *Perspective* or visit the CalPERS Web site (www.calpers.ca.gov).

Sign up for "SPP Updates"

Did you know you can subscribe to receive updates from SPP via email? Just go to the DPA Web site at www.dpa.ca.gov, click on the DPA Subscriptions graphic, and follow the directions to become an "SPP Updates" subscriber. We'll email you news about fund changes and other updates to keep you in the loop about SPP.



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Department of
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